

Draft Modification Report
Notification of LNG Storage Duration
Modification Reference Number 0654
Version 2.0

This Draft Modification Report is made pursuant to Rule 7.3 of the Modification Rules and follows the format required under Rule 8.9.3.

1. The Modification Proposal

With effect from Storage Year 2004/5, it is proposed that Network Code Clause Z2.3.2 be amended to remove the reference to a fixed 5-day Storage Duration so that capacity be offered with a Storage Duration derived from the available Storage Space and the Storage Deliverability. This would allow the Storage Duration for individual LNG Facilities to be separately calculated and identified within the Annual Storage Invitation.

2. Transco's Opinion

Prior to the onset of each Storage Year, Transco assesses the physical Storage Space and Deliverability available to Users at each LNG Facility. In March 2003, as a result of discussions with Transco LNG Storage ("TLNGS") regarding changes to available Storage Capacity, Ofgem consulted with the industry on capacity available at each of the five LNG facilities. In its report on this consultation, Ofgem concluded that " .. Section Z of the Network Code permits TLNGS to determine the volume level of LNG capacity that can be offered. As such, decisions on LNG capacity withdrawal of this kind are a matter for TLNGS."

The Storage Duration offered to Users within the Annual Storage Invitation might better reflect the Space and Deliverability available and this would vary between LNG Facilities. Section Z, however, defines a fixed Storage Duration of 5 days leading to an unavailability of either Storage Space or Storage Deliverability within the initial service auction process. In 2003/4, this restriction led to an initial unavailability of 176,400,000 kWh of Storage Space and 131,200,000 kWh/day of Storage Deliverability. This was offered for sale as Special Storage Capacity after the primary auction process.

Transco believes that it would be more efficient to make the maximum Storage Capacity available for each Facility within the initial service auction process and is raising this Modification Proposal in order to facilitate change.

3. Extent to which the proposed modification would better facilitate the relevant objectives

Implementation of this Proposal would facilitate the maximisation of LNG capacity available to the market in a primary auction. This would be consistent with facilitating effective competition between relevant Users and the efficient and economic operation of the System.

**4. The implications for Transco of implementing the Modification Proposal , including
a) implications for the operation of the System:**

Transco has not identified any implications for operation of the System.

b) development and capital cost and operating cost implications:

Minor implications on the costs of Transco's Operating Margins and other LNG bookings have been identified, the impact of which could be negative or positive.

c) extent to which it is appropriate for Transco to recover the costs, and proposal for the most appropriate way for Transco to recover the costs:

The minor costs identified in 4(b) would be reflected in Transco's SO incentives.

d) analysis of the consequences (if any) this proposal would have on price regulation:

Transco believes there may be a small impact on the level of transportation credits in respect of bookings at Constrained LNG sites, since these depend on both the constrained deliverability level and the maximum deliverability available at each Constrained LNG site.

5. The consequence of implementing the Modification Proposal on the level of contractual risk to Transco under the Network Code as modified by the Modification Proposal

Implementation of this Modification Proposal would not have any adverse consequences upon the level of contractual risk to Transco under the Network Code.

6. The development implications and other implications for computer systems of Transco and related computer systems of Users

Transco does not anticipate any major development implications or other implications for computer system of Transco and related computer systems.

7. The implications of implementing the Modification Proposal for Users

Transco believes that Users that are potential or existing Storage Users would benefit from implementation of this Modification Proposal as it would facilitate the maximisation of capacity being made available to the market.

8. The implications of implementing the Modification Proposal for Terminal Operators, Consumers, Connected System Operators, Suppliers, producers and, any Non-Network Code Party

Other than for the Transco LNG Facilities, Transco does not anticipate any direct implications through implementation of this Modification Proposal. Transco would, however, anticipate that any economic benefits would be passed on by Users to their customers.

9. Consequences on the legislative and regulatory obligations and contractual relationships of Transco and each User and Non-Network Code Party of implementing the Modification Proposal

Transco does not anticipate any consequences on the legislative and regulatory obligations or contractual relationships of Transco and each User and Non-Network Code Party.

10. Analysis of any advantages or disadvantages of implementation of the Modification Proposal

Advantages:

Storage Users would benefit from implementation of this Modification Proposal as it would facilitate the maximisation of capacity being made available to the market.

Disadvantages:

Transco has not identified any disadvantages.

11. Summary of the Representations (to the extent that the import of those representations are not reflected elsewhere in the Modification Report)

Transco now invites representations to this Modification Proposal.

12. The extent to which the implementation is required to enable Transco to facilitate compliance with safety or other legislation

Implementation is not required to facilitate compliance with safety or other legislation.

13. The extent to which the implementation is required having regard to any proposed change in the methodology established under Standard Condition 4(5) or the statement furnished by Transco under Standard Condition 4(1) of the Licence

Transco is not aware of any such requirement.

14. Programme of works required as a consequence of implementing the Modification Proposal

No programme of works has been identified.

15. Proposed implementation timetable (including timetable for any necessary information systems changes)

Transco proposes that this Modification Proposal be implemented prior to the issue of 2004/5 Annual LNG Storage Invitation.

16. Recommendation concerning the implementation of the Modification Proposal

Transco recommends implementation of this Proposal.

17. Text

Amend Section Z2.3.2 to read as follows:

“Where a User applies under this Section Z for Storage Capacity the Storage Duration of the Storage Capacity applied for shall be that specified in the Annual Storage Invitation (but the Storage Duration of the Storage Capacity which a User is registered as holding may differ in accordance with paragraph 2.9).”

Representations are now sought in respect of this Draft Report and prior to Transco finalising the Report

Signed for and on behalf of Transco.

Signature:

Nigel Sisman
Development Manager, Gas Balancing
NT & T

Date: